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## **S. 2346 – Marriage Tax Relief Act of 2000**

Calendar No. 484

Reported by the Senate Committee on Finance on April 4, 2000 by a party-line vote of 11 yeas and 8 nays, an original bill without amendment. S. Rept. 106-253; minority views filed.

### **NOTEWORTHY**

- The Majority Leader intends to take up this bill as early as Tuesday, April 11.
- According to the Congressional Budget Office (CBO), almost half of all married couples pay higher taxes due to their marital status. On average, this “marriage penalty” costs a married couple an additional \$1,400 in taxes each year. Cumulatively, the marriage penalty increases taxes on affected couples by \$29 billion per year.
- Fully phased-in, S. 2346 reduces the tax penalty shouldered by married couples by increasing their standard deduction, expanding the 15-percent and 28-percent tax brackets, expanding the Earned Income Credit (EIC), and exempting family tax credits from the individual Alternative Minimum Tax.
- S. 2346 provides total tax relief to married couples of \$64 billion over the next five years. Combined with the other tax relief measures adopted by the Senate this year — tax relief for small employers (H.R. 833), improved health care access (H.R. 2990), and education savings accounts (S. 1134) — the total tax relief considered by the Senate falls well within the \$150 billion budgeted for tax cuts in the recently-adopted Senate budget resolution.
- S. 2346 aids low-income families by increasing the maximum EIC for married couples with two or more children by \$526, from \$3,888 to \$4,414.
- H.R. 6, which is similar but narrower in scope than S. 2346, passed the House 268-158 on February 10, 2000. That bill is pending on the Senate Calendar (No. 437). The President’s advisers suggested he should veto H.R. 6, and the Treasury Department is also urging he veto the Senate bill.

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## HIGHLIGHTS

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To help mitigate the tax penalty incurred by many married couples, the bill makes four changes to the tax code:

**Standard Deduction:** The bill increases the standard deduction for married couples filing jointly to twice the standard deduction for single taxpayers. According to the Joint Committee on Taxation, this provision provides tax relief to approximately 25 million couples filing joint returns. It is effective for taxable years after December 31, 2000.

**Increased Brackets:** The bill expands, over a six-year period, the 15-percent and 28-percent income tax brackets for a married couple filing a joint return to twice the size of the corresponding brackets for an individual filing a single return. Fully phased-in, this provision provides relief to 21 million married couples, including 3 million senior citizens.

**EIC:** The bill increases the beginning and the end of the phase-out of the Earned Income Credit for couples filing a joint return. Currently, for a couple with two or more children, the EIC begins phasing out at \$12,690 and is eliminated for couples earning more than \$31,152. Under this bill, the new range would be \$2,500 higher. For these couples eligible for the EIC, the maximum credit is increased by \$526, from \$3,888 to \$4,414. It is effective for taxable years after December 31, 2000.

**AMT Relief:** The bill permanently extends the current temporary exemption from the individual Alternative Minimum Tax (AMT) for several family-related tax credits, including the \$500 per child tax credit, HOPE and Lifetime Learning credits, and dependent care credit. The bill also exempts two refundable credits, the Earned Income Credit and the refundable child credit, from being reduced by the AMT. It is effective for taxable years after December 31, 2000.

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## BACKGROUND

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### *What is the Marriage Penalty?*

A marriage penalty exists when a married couple filing a joint tax return pays higher taxes than if the same couple were not married and filed as individuals. For example, a married couple where both spouses earn \$30,000 in 1999 would pay \$7,655 in federal income taxes. Two individuals earning \$30,000 each but filing single returns would pay only \$6,892 combined. The \$763 difference in tax liabilities is the marriage penalty.

According to the Congressional Budget Office, almost half of all married couples — 21 million — suffered from the marriage penalty last year. The average penalty paid by these couples was \$1,400. In the previous example, the marriage penalty was the result of 1) a higher combined standard deduction for two workers filing as singles than for married couples and 2) income tax bracket thresholds for married couples that are less than twice the threshold for single taxpayers. S. 2346 addresses both of these factors.

### ***Earlier Attempts to Eliminate the Marriage Penalty***

Legislation to address the marriage penalty has been adopted by Congress previously. In 1995, Congress adopted H.R. 2491, a comprehensive tax bill that included provisions to provide a tax credit to married couples to offset some of the marriage penalty. President Clinton vetoed H.R. 2491 on December 6, 1995.

In 1999, Congress again acted to fix the marriage penalty. The Taxpayer Relief Act of 1999 included provisions to make the standard deduction for married couples twice the deduction for singles and to double the lowest income tax bracket for married couples compared to single taxpayers. Again, the President vetoed the legislation.

On February 10, 2000, the House again voted in support of legislation to address the marriage penalty. Adopted 268-158, H.R. 6 would 1) increase the standard deduction for married couples beginning next year to twice the deduction for single filers, 2) phase in over six years an increase in the 15-percent tax bracket for married couples to twice the bracket of single taxpayers, and 3) increase the phase-out range of the Earned Income Credit for married couples by \$2,000. H.R. 6 is pending on the Senate Calendar. On February 10, 2000, the Administration issued a statement strongly opposing H.R. 6.

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## **BILL PROVISIONS**

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Section 1: Short title of the bill is "Marriage Tax Relief Act of 2000".

Section 2: The bill increases the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual for taxable years beginning after December 31, 2000.

Section 3: The bill increases the size of the 15-percent and 28-percent income tax brackets for married couples filing joint returns to twice the size of the corresponding rate brackets for a single individual. This increase is phased-in over seven years.

Section 4: The bill increases the beginning and end points for phasing out the Earned Income Credit by \$2,500 for married couples filing jointly.

Section 5: The bill permanently extends the temporary exemption from the individual Alternative Minimum Tax for certain tax credits, including the dependent care credit, the child credit, the HOPE scholarship and Lifetime Learning credits, and the D.C. homebuyers credit. The bill also permanently repeals the AMT's reduction of the Earned Income Credit and the refundable child credit.

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## **ADMINISTRATION POSITION**

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No Statement of Administration Policy (SAP) was available at press time, but one was anticipated for release shortly. On March 30, the Department of Treasury issued a statement to the Chairman of the Finance Committee suggesting the President should veto S. 2346. On February 10, 2000, the Administration issued a SAP on H.R. 6, a less generous bill than S. 2346, stating the Administration's opposition, but coming short of a veto threat by stating that the President's senior advisors "would not recommend that he sign it."

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## **COST**

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The Joint Committee on Taxation estimates that the bill would decrease revenues by \$4 billion in 2001, by \$64 billion for the years 2001-2005, and by \$236 billion from 2001-2010.

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## **OTHER VIEWS**

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All the Committee's Democrats signed onto minority views filed in the committee report. They favor the Democrat alternative, offered by Senator Moynihan as a substitute, which would allow married taxpayers to file as single taxpayers (that amendment failed during committee markup on a strict party-line vote). Furthermore, the Senators state that before the Senate spends a significant portion of the projected surplus on tax cuts, it first should "develop a budget framework that would allocate sufficient funds for reducing the debt held by the public, bolstering Medicare and Social Security, and investing in other priority programs" [Committee Report, page 19].

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## **POSSIBLE AMENDMENTS**

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- Moynihan.**      **Substitute to allow married taxpayers to file as single taxpayers in order to avoid the marriage penalty. (A similar amendment was defeated in committee markup on a party-line vote.)**
- Unknown.**      **To increase EIC beyond increases in reported bill.**
- Robb.**          **Delaying effective dates. (A similar amendment was defeated during committee markup on a party-line vote.)**

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